

Docket	:	<u>A.15-05-008</u>
Exhibit Number	:	<u>ORA-10</u>
Commissioner	:	<u>L. Randolph</u>
ALJ	:	<u>K. McDonald</u>
Witness	:	<u>J. Lee</u>



**OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Report on the Results of Operations
for
Liberty Utilities
(formerly CalPeco Electric)
Test Year 2016
General Rate Case**

Results of Examination
Vegetation Management
and
Catastrophic Event Memorandum Account

San Francisco, California
November 9, 2015

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2 **RESULTS OF EXAMINATION**

3 **VEGETATION MANAGEMENT**

4 **AND**

5 **CATASTROPHIC EVENT MEMORANDUM ACCOUNT**

6 **I. INTRODUCTION**

7 The Office of the Ratepayer Advocates (ORA) has performed a limited
8 examination of Liberty Utilities (CalPeco Electric) financial records for the period
9 from January 1, 2012 to May 31, 2015 regarding Liberty Utilities Application A.15-05-
10 008 filed with the California Public Utilities Commission on May 1, 2015. Liberty
11 Utilities requests an overall increase of \$13,571 million annually over its current
12 effective rates or 17.34 percent with an effective date of January 1, 2016 in its Test
13 Year 2016 General Rate Case (GRC).

14 The \$13,571 Million increase can be separated into generation, a \$(4,107)
15 million reduction and distribution, a \$17,678 million increase.
16

17 **II. SUMMARY OF FINDINGS AND RECOMMENDATIONS**

18 **A. Summary of Administration & General Expenses (A&G)**

19 Based on the procedures performed ORA recommends the following
20 adjustments to Administration & General Expenses.

- 21 • ORA recommends removal of \$23,941 from base year A&G expense
22 to adjust for internal audit costs. This is due to Liberty's refusal to allow
23 ORA access to the supporting documents to verify internal audit costs.

24 **B. Summary of Catastrophic Event Memorandum Account**
25 **(CEMA)**

26 Based on the procedures performed, ORA recommends no adjustments to
27 Liberty's Catastrophic Event Memorandum Account request.

C. Vegetation Management

Based on the procedures performed, ORA recommends no adjustments to Liberty's Vegetation Management Memorandum Account request.

III. EXAMINATION OVERVIEW (Scope and Approach)

ORA's examination of Liberty's O&M expenses covered calendar years 2012-2015. The approach included an examination of the general ledger integrity. A test basis sample of 55 selections of supporting documents representing 20% of total costs were examined (\$942,423 out of \$17,864,987 or 5% for A&G , \$18,501,040 out of \$87,057,705 or 22% for Purchased Power, \$1,965,718 out of \$3,084,456 or 64% for CEMA, and \$318,547 out of \$2,389,236 or 13% for VMMA) for major expense items from 2012-2015 data entries, most selections came from 2014 recorded data (see Table 10-1, Table 10-2, and Table 10-3). The related supporting documents and disclosures were examined (e.g., invoices, control sheet, purchase order, journal entries, and other source data). These tests were conducted in order to determine the accuracy and reasonableness of Liberty's financial data. Documents were reviewed for dates of service and the type of service performed. ORA also reviewed and matched the service contracts for 2012-2014 from five major service providers (*Etcgeberry* Construction, Summit Line Construction, Par Electrical Contractors, Sierra pacific Power dba NV energy, and Baker Tilly Virchow Krause Consultant).

The three tables below show the expenses selected by ORA for review from the most fluctuating expenditures from 2012-2015, and provide historical data for 2014, which is the year in which ORA focused most of its selection procedures. Table 10-01 presents the 2013-2014 selected data for Liberty's purchased power and gas distribution expenses. Table 10-02 presents the 2013-2015 selected data for Liberty's CEMA related expenditures. Table 10-03 presents the 2012-2014 selected data for Liberty's Vegetation Management Project.

Table 10-01		
2013-2014 Recorded/Adjusted O&M Expenditures		
		<u>Recorded</u>
Purchasing Power 5550		
Purchased Power	2013	\$ 4,952,139.05
Purchased Power	2013	4,317,596.42
Purchased Power	2014	4,413,880.58
Purchased Power	2014	6,906.83
Purchased Power	2014	4,802,516.85
		\$ 18,501,039.73
DISTRIBUTION EXPENSES 5880		
Distribution Expenses	2014	\$ 20,284.25
Distribution Expenses	2014	29,147.36
Distribution Expenses	2014	57,986.80
Distribution Expenses	2013	30,962.46
Distribution Expenses	2014	40,702.96
Distribution Expenses	2014	67,052.05
		\$ 246,135.88
Outside Services, etc. 9230		
Allocation from Parent Company	2013	\$ 66,438.29
Allocation from Parent Company	2013	118,440.44
Allocation from Parent Company	2014	118,440.44
Allocation from Parent Company	2014	118,440.44
Outsided services	2014	22,000.00
Legal and Power Services	2014	18,533.05
Legal and Power Services	2014	15,799.00
Outsided services	2014	91,575.43
Outsided services	2014	15,848.75
Outsided services	2014	29,869.00
Outsided services	2014	51,232.00
Outsided services	2014	29,669.94
		\$ 696,286.78
Sample Selected		\$ 19,443,462.39

Table 10-02			
2013-2015 Recorded/Adjusted Catastrophic Event Memorandum Account			
Description			Recorded
0541051 NLT LINEMEN	2014	Contruction Services	\$ 30,736.48
541051	2014	Contruction Services	19,516.99
541051	2014	Contruction Services	30,045.75
201 Line 16 hand dug holes w/s	2013	Contruction Services	50,400.00
Per Approved Bid 10/6/2014		Contruction Services	48,978.66
Per Approved Bid 10/6/2014		Contruction Services	580,746.93
Per Approved Bid 10/6/2014		Contruction Services	77,743.90
541051	12/20/2014	Contruction Services	19,516.99
1541051	12/20/2014	Contruction Services	41,724.72
541051	12/20/2014	Contruction Services	31,496.07
Per Approved Bid 10/6/14		Contruction Services	48,978.65
Per Approved Bid 10/6/14		Contruction Services	580,746.94
			<u>\$ 1,560,632.08</u>
	2015	Receivings Transaction Entry	\$ 26,365.98
	2015	Receivings Transaction Entry	22,672.19
	2015	Receivings Transaction Entry	13,545.12
	2014	INSULATOR:UNITARY SUSPENSION,	1,242.00
	2014	CUTOUT,FUSE:POLYMER	1,017.60
	2014	INSULATOR:UNITARY SUSPENSION,	1,796.72
	2015	BRACKET:69 KV HORIZONTAL POST	1,148.55
541051	2015	Construction Services	144,615.80
541051	2015	Construction Services	95,966.77
541051	2015	Construction Services	40,639.89
541051	2015	Construction Services	26,540.16
Service Agmt #8800-0000-16-05	2015	Outside legal Services	14,863.27
0089731-000018	2015	Outside legal Services	6,633.71
	2015	Outside legal Services	6,466.00
	2015	Outside legal Services	1,572.50
			<u>\$ 405,086.26</u>
		Sample Selected	\$ 1,965,718.34

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Table 10-03			
2012-2014 Recorded/Adjusted Vegetation Management Project			
Description		Year	Recorded
Tree Trimming-Mountain Enterprise		2012	\$ 37,682.50
Dec rate adj- Decoupling mechanism deferral		2013	43,580.92
*Payables Trx Entry		2013	27,276.20
*Receivings Trx Entry		2013	35,378.58
Dec veg management - Unbilled		2014	174,629.00
Sample Selected			<u>\$ 318,547.20</u>
* Payables/Receivings Transaction Entry - This data is extracted from Great Plains Accounting System as a batch file, it was tested for accuracy. No issues noted.			

The audit sample covered the following areas and included the type of service referred to in the following:

1. During the delivery term, NV Energy shall supply, and CalPeco shall purchase, the entire requirements for capacity and energy for the service areas.
2. Inspections and Maintenance of Facilities.
3. Supervision and Engineering Maintenance.
4. Land Engineering Services.
5. Distribution and Transportation Services.
6. Tahoe City and Squaw Valley Green Jacket Installation.
7. Stateline & Meyers Substation Labor, equipment & Tools.
8. Capital Transmission, Distribution and Substation Projects.
9. Electricity Infrastructure Services.
10. Farad Pole Replacement Services.
11. Reconstruction/Re-conductor Project for Reconstruction 24.9kV Distribution Line Rebuild.
12. Payroll, Monthly Vegetation Management Fees, and Rate adjustment.

Other procedures performed by ORA included review of the following:

- Liberty Utilities' application and workpapers;
- California Public Utilities Commission decisions;
- Board of Director's and Committee meeting minutes;
- Liberty Utilities' Annual Reports;
- Accounting System;
- Financial Statement;

- Internal/External Audit Reports;
- Purchasing Policy and Procedures;
- Analyses and reconciliations of recorded amount in the Applicant's General Ledger and the Applicant's filing.

IV. **DISCUSSION AND RECOMMENDATIONS**

ORA requested internal audit reports conducted from January 2013 through December 2014 by Liberty Utilities' Audit Department. Liberty Utilities refused to allow ORA to review these 44 audit reports so ORA could not determine the reasonableness of these audits for ratemaking purposes. The total cost charged to Liberty for the two years was \$47,882 (\$24,930 in 2013 and \$22,952 in 2014) or an average of \$23,941 per year. Therefore, ORA could not determine the reasonableness of these audit costs. In Decision 09-03-025,¹ the Commission dealt with a similar situation in which the reasonableness of internal audit costs for Southern California Edison could not be determined. The Commission concluded that the costs related to those internal audit reports should be disallowed. Consistent with D.09-03-025, ORA recommends disallowance of \$23,941 to the base year Administrative and General expenses. That adjustment will be reflected in Exhibit ORA-03.

ORA found no other exceptions in Liberty's recorded transactions which occurred during the examination period.

¹ Decision 09-03-025, March 21, 2009, Page 316-318, Findings of Fact 333 at Page 365, and Conclusions of Law 220 at Page 391.